

Message Text

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C O N F I D E N T I A L LA PAZ 2445

FOR ASSISTANT SECRETARIES KATZ AND TODMAN

E.O. 11652: GDS
TAGS: PINT, EMIN, ITC, BL
SUBJECT: LIMITING THE DAMAGE OF GSA TIN SALES ON OUR
INTERESTS IN BOLIVIA

1. THE TIMING AND FORM OF ANNOUNCEMENT OF ADMINISTRATION SUPPORT FOR THE UDALL-DECONCINI BILL WERE OBVIOUSLY DETERMINED BY SIGNIFICANT US ECONOMIC AND POLITICAL INTERESTS HAVING LITTLE OR NOTHING TO DO WITH BOLIVIA. PART OF THE COST OF THIS ACTION, HOWEVER, IS THAT IT HAS HURT US IN BOLIVIA. SINCE THIS DAMAGE CAN BE LIMITED SIGNIFICANTLY BY HOW WE NOW PROCEED, THE BOLIVIAN FACTOR CAN AND SHOULD INFLUENCE OUR UPCOMING DECISIONS ON IMPLEMENTATION OF THE UDALL-DECONCINI BILL AND RELATED TIN ISSUES.

2. FIRST, TO BE CLEAR ABOUT THE DAMAGE TO BE LIMITED.

3. POLITICALLY, THE DAMAGE IS BOTH TO THE BOLIVIAN DEMOCRATIZATION PROCESS AND OUR INFLUENCE IN IT. THE CONCEPT THAT RETURN TO DEMOCRACY WILL BRING INCREASED INTERNATIONAL SUPPORT FOR BOLIVIA (A SIGNIFICANT FACTOR MOVING BOLIVIA TOWARD JULY ELECTIONS) HAS BEEN PARTIALLY DISCREDITED HERE, AND THE PRO-
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ELECTION FORCES THEREBY WEAKENED. MANY BOLIVIANS WERE SINCERELY SHOCKED THAT THE US, AT THIS DELICATE MOMENT IN BOLIVIA'S RETURN TO DEMOCRATIC RULE, COULD TAKE AN ACTION THAT THEY ARE CONVINCED WILL COST BOLIVIA MORE THAN ANY POTENTIAL US AID FOR AN ELECTED GOVERNMENT. THE SOBERING CONCLUSION HAS BEEN THAT THE US, DOMINATED AS IT IS BY MAJOR CONCERNS OF ITS OWN, WILL

NOT NECESSARILY TAKE CARE OF BOLIVIA DESPITE ITS PROGRESS
ON HUMAN RIGHTS, POLITICAL FREEDOMS, ETC.

4. ECONOMICALLY, BOLIVIA IS IN A TIGHT SQUEEZE THIS YEAR AND NEEDS EVERY PENNY IT CAN GET NOW--AND MOST OF ITS PENNIES COME FROM TIN. THE BOLIVIAN ECONOMIC POSITION (ABJECT POVERTY, LOW FINANCIAL RESERVES, STRUGGLE TO FINANCE PUBLIC EXPENDITURES--2/3 OF GNP--IN A PRE-ELECTORAL PERIOD) AND TIN PROSPECTS (EXHAUSTED MINES AFTER A HUNDRED YEARS OF EXPLOITATION, HIGH AND RELENTLESSLY RISING COSTS) ARE DIFFERENT FROM OTHER PRODUCERS AND THEREFORE HERE AS WELL THEIR DOMINANT CONCERN IS THE SHORT RUN. WITH TIN AT \$5 THE STATE MINING COMPANY, COMIBOL, CAN MEET ITS ANTICIPATED TAX AND ROYALTY PAYMENTS TO THE GOVERNMENT, THE BUDGET DEFICIT IS MANAGEABLE AND THE BALANCE OF PAYMENTS DEFICIT, WHILE SUBSTANTIAL, APPEARS FINANCEABLE. BELOW \$5, ALL OF THIS BECOMES MORE DIFFICULT TO MANAGE.

5. THE ECONOMICS AND POLITICS COME TOGETHER BECAUSE THE ANTI-ELECTION FORCES CLAIM THAT ONLY AN AUTHORITARIAN GOVERNMENT CAN OVERCOME BOLIVIA'S TOUGH ECONOMIC PROBLEM. THE DEMOCRATIC FORCES CLAIM THE ECONOMIC PROBLEMS CAN BE CONTAINED AND THAT ELECTED GOVERNMENT, WHILE IT MAY COST SOMETHING IN THE SHORT RUN, WILL ENHANCE BOLIVIA'S ABILITY TO GARNER INTERNATIONAL SUPPORT TO MEET THESE PROBLEMS. AS OF NOW OUR ACTION ON TIN SEEMS TO VALIDATE THE WORLD VIEW OF THE ANTI-ELECTION FORCES.

6. OUR PERSUASIVE POWERS ARE NOT GOING TO CHANGE THIS MUCH.
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WHAT CAN CHANGE THE SITUATION IS
-- THE HARD EVIDENCE OF THE PRICE OF TIN IN MARKET, AND
-- US ACTIONS TO PROVE THAT THE ANTICIPATED DISPOSAL PROGRAM IS NOT SO DRASTIC AS THE BOLIVIANS NOW IMAGINE.

7. SPECIFICALLY, WHAT WE CAN DO IS THE FOLLOWING.

A. GET A SPECIFIC MULTIYEAR DISPOSAL PROGRAM ON THE TABLE AS SOON AS POSSIBLE, SO THAT BOLIVIA AND THE MARKET CAN FOCUS ON WHAT WE ARE ACTUALLY GOING TO SELL IN '78, '79, '80, '81 AND MAYBE BEYOND, NOT ON A 45,000 TON TOTAL WHICH APPEARS OVERWHELMING.

B. PROPOSE A REGULAR MONTHLY DISPOSAL LEVEL. 1000 TONS PER MONTH FOR FOUR YEARS WOULD BE REASONABLE AND CONSISTENT WITH BOTH THE GSA MATERIALS PROGRAM FOR FY78-80 AND THE UDALL-DECONCINI AUTHORITY. (THIS WOULD PROMOTE AN ORDERLY MARKET OVER THE MEDIUM TERM AND MINIMIZE SPECULATIVE SELLING NOW.) I HOPE WE DO NOT REQUIRE A LARGER MONTHLY DISPOSAL LEVEL.

C. ANNOUNCE A STARTING DATE, SUBJECT TO CONGRESSIONAL ACTION ON

THE AUTHORITY, AS LATE AS POSSIBLE IN 1978. (WE SHOULD NOT NEED TO SELL BEFORE BOLIVIAN ELECTIONS IN JULY AND PERHAPS NOT IN THE FIRST MONTH OR SO OF THE ELECTED GOVERNMENT TO TAKE OFFICE AUGUST 9.)

D. AT THE ITC MEETING APRIL 11 AGREE TO A RISE IN THE FLOOR PRICE, TO HELP CONVINCE PRODUCERS WE ARE NOT OUT TO SINK THE PRICE PRECIPITOUSLY.

8. THESE ACTIONS WILL NOT UNDO WHAT WE HAD TO DO TO BOLIVIA. BUT IF WE TAKE THEM, IT SEEMS TO ME WE CAN LOOK FOR CONTAINMENT OF THE EFFECT ON BOLIVIAN POLITICS IN THE PRE-ELECTORAL PERIOD. ALSO, BY THE TIME THE ELECTED GOVERNMENT TAKES OFFICE IN AUGUST THE TIN FACTOR IN OUR RELATIONSHIP SHOULD BE BACK IN PERSPECTIVE, UNLESS THE PRICE STAYS WELL BELOW \$5. BOLIVIA UNDER THAT NEW
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GOVERNMENT WOULD, THEREFORE, TAKE OUR CONSIDERABLE PLANNED ECONOMIC SUPPORT FOR WHAT IT IS--A SIGNIFICANT BOOST TO THE ECONOMIC AND POLITICAL PROGRESS OF BOLIVIA. THIS SUPPORT, RATHER THAN TIN POLICY, COULD THEN BE THE DOMINANT FEATURE OF OUR RELATIONSHIP.

9. IF THE TIN PRICE CONTINUES ITS FALL OF THE LAST TWO WEEKS (A RESULT, IT SEEMS TO ME, WE DO NOT NEED TO PROTECT OUR ECONOMIC INTERESTS) THEN THERE IS NOT MUCH WE CAN DO TO PUT THE US-BOLIVIAN RELATIONSHIP BACK IN THE RIGHT PERSPECTIVE. UNDER THESE CIRCUMSTANCES, IF ELECTIONS ARE POSTPONED, WE WILL (ALBEIT UNJUSTLY) BE IN FOR SIGNIFICANT BLAME FROM ALL SIDES. OUR GENEROUS AID WILL UNFORTUNATELY (AND UNJUSTLY) BE TAKEN NOT AS SUPPORT FOR BOLIVIAN POLITICAL AND ECONOMIC PROGRESS, BUT CONSCIENCE MONEY WHICH ONLY PARTLY OFFSETS THE DAMAGE OF GSA TIN SALES. THE BOLIVIAN PSYCHIC STATE ON DEPENDENCE ON THE US WILL ASSUME A BITTER TONE.

10. THIS MESSAGE IS NOT ABOUT THE LONG RUN. AS BANZER SAYS, THE LONG RUN IN BOLIVIA IS THE NEXT FOUR MONTHS TO ELECTIONS. OVER THE COSMIC LONG RUN, HOWEVER, (THAT IS MORE THAN FOUR YEARS, IN BOLIVIA) THERE IS GREAT ADVANTAGE TO NEUTRALIZING THE STRONG IMPACT OF GSA TIN SALES ON A SMALL COUNTRY THAT SEES ITSELF IN A STATE OF EXTREME DEPENDENCE ON THE US, EVEN APART FROM THE TIN FACTOR--TO A FRANKLY UNHEALTHY DEGREE. FROM THIS STANDPOINT, A SET FOUR-YEAR GSA SALES PROGRAM IS FAR BETTER THAN A TWO OR THREE YEAR PROGRAM. AND THAT ONE SHOULD PROBABLY BE FOLLOWED BY ANOTHER FOUR OR FIVE YEAR PROGRAM. WE SHOULD MAKE GSA'S ROLE IN THE TIN MARKET REGULAR, PREDICTABLE, LONG-TERM AND MUNDANE, WITH FEW IF ANY GREAT DECISION POINTS ON MASSIVE NEW ACTION. A STRATEGIC CHANGE WOULD COME ONLY WHEN AND IF PRODUCERS ARE ABLE TO INCREASE PRODUCTION SUFFICIENTLY TO COVER THE DEFICIT IN TIN SUPPLY

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AS WHEN GS EXCESS TIN STOCKS ARE DEPLETED.
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